

BOARDS OF GOVERNORS•1999 ANNUAL MEETINGS•WASHINGTON, D.C.

WORLD BANK GROUP

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
MULTILATERAL INVESTMENT GUARANTEE AGENCY

INTERNATIONAL MONETARY FUND

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Press Release No. 24

September 28–30, 1999

Statement by the Hon. **BONG-KYUN KANG**,
Governor of the Fund for **KOREA**,
at the Joint Annual Discussion

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Keynote Speech for the IMF/World Bank Annual Meetings

The Honorable Kang Bong-Kyun

I. Introduction

Mr. Chairman, Distinguished Delegates, Ladies and Gentlemen,

It is a great pleasure and honor for me to represent the Republic of Korea at this fifty-fourth Annual Meeting of the International Monetary Fund and the World Bank Group. I would like to take this opportunity to express my profound gratitude to the IMF and the World Bank, and to member countries for helping Korea to not only overcome the financial crisis, but also quickly restore economic vitality.

II. International Cooperation for Stable Global Economic Growth

I am pleased to see that most economies in Asia have recovered from financial crisis faster than expected, and that the instability in other regions of the world has largely abated.

In this regard, international financial institutions have played an indispensable role in stopping the spread of financial crises. Indeed, they have done this in many ways, but most importantly, they have guided crisis-affected countries in the right direction by assisting them to set up and implement their own structural reform programs. I praise the World Bank and the IMF for their accomplishments.

Yet for structural reforms to become deep-rooted and effective, it is critical that the global economic environment remains stable. Specifically, we look to a soft-landing for the U.S. economy and a sustained economic rebound in Japan and EU member countries. For achieving stability in the global financial environment, we will all benefit from strengthened policy coordination among the world's major countries.

III. Korea's Economic Reform and Recovery

Mr. Chairman, Distinguished Delegates,

Since the onset of the crisis, Korea has spared no efforts in overcoming the crisis and reforming its economy. We have acted to reinvigorate our economy; we have continuously implemented structural reforms to build a foundation for sustainable

growth; and we have greatly emphasized a social harmonization policy throughout the reform process.

Thanks to the strong leadership of President Kim Dae-jung and the resolve of the Korean people, Korea's economic recovery has been remarkable. GDP growth recorded 7.3% for the first half of this year and is expected to be around 7% for the year as a whole. Other major macroeconomic indicators show equally favorable developments, including a historically low inflation rate of 0.7% during the first eight months of this year.

Korea's foreign exchange reserves have reached record-high levels, rising dramatically from near depletion at the onset of the crisis to more than 65 billion US dollars. The large current account surpluses and the active capital inflows contributed to the rapid build-up of reserves. At the same time, foreign exchange markets have stabilized since the beginning of the year. The total amount of external debt has continued to decline and its structure too has improved toward a much lower share of short-term debt. Based on these achievements, Korea was able to repay the entire amount of its SRF borrowings from the IMF—13.5 billion US dollars—nine months ahead of schedule

A significant improvement has also been achieved in Korea's financial markets, now equipped with greater capacity to absorb shocks. Interest rates have declined to the single digit range for the first time ever, and the stock market index has nearly doubled this year, recovering above pre-crisis levels. These conditions have translated into an environment conducive for corporate sector reform, particularly for the rapid improvement of debt-equity ratios. The success of corporate restructuring is paramount for enhancing the overall competitiveness of the Korean economy and achieving international credibility.

Korea's strong reform drive proved to be painful to many of our people, especially those in the middle- and low-income class. Thus, following through on our conviction that the government's drastic structural reforms cannot succeed without strong social cohesion, we have greatly expanded the social safety net to provide adequate protection for those most vulnerable. The government has also strengthened its support programs for small- and medium-sized firms and venture capital enterprises to help contain unemployment problems.

IV. Reforming the International Financial Architecture

I would now like to turn to the issue of reforming the international financial architecture. I welcome the international community's efforts to enhance transparency through the establishment of more stringent global information standards. Also, to promote an orderly financial integration, the international community should cooperate closely in strengthening regulations on short-term capital flows and devising safeguards that can be readily implemented during times of crisis. In this context, I urge stepped-up

international efforts for improved monitoring and regulation of hedge funds to minimize their disruptive effects on emerging market economies.

In the spirit of a more balanced approach to improving the global financial system, I strongly support the expansion of the existing G-7 consultation framework to include so-called “systematically important countries” such as Korea.

V. Helping the Heavily Indebted Poor Countries (HIPC)

Before closing, I would like to take this opportunity to express Korea’s support for the IMF-World Bank initiative to help heavily indebted poor countries (HIPC). Korea is willing to contribute to the ESAF-HIPC trust fund on the basis of a fair burden-sharing principle.

VI. Conclusion

Mr. Chairman, Distinguished Delegates,

This Annual Meeting takes place as we approach the turn of a century, at the time when the world economy is moving into a new era marked by challenges and opportunities. I can assure you that Korea is fully committed to playing an important role toward promoting global economic prosperity. To this end, Korea will push forward major reforms to achieve its historical goal of a simultaneous achievement of democracy and market economy.

Thank you for your kind attention.